

Moving money: Governments pushed to bank locally

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There's a push on for cities, counties and even the state government to do more of their banking with local institutions. Still, the reality is the behemoth national banks likely will keep most of their existing Arizona government contracts because of their perceived stability and broader investment services.

Valley cities, Maricopa County and the state of Arizona have most of their financial services contracts with the three big national banks operating here: [Wells Fargo & Co.](#), [JPMorgan Chase & Co.](#), and Bank of America Merrill Lynch.

The cities of Phoenix, Tempe, Gilbert and Mesa bank with Chase; Glendale, with BofA and Chase; and Scottsdale, with Wells Fargo and Alliance Bank. Maricopa County is switching from BofA to Chase on July 1.

That business is competitively bid out by cities on a regular basis, usually every five years. Large banks tend to win those contracts because of better pricing and more services.

But advocates of buying local products and services, such as Local First Arizona, want to see more municipalities and businesses bank with community-based financial institutions rather than the national giants, which are fighting a negative image over federal bailouts, foreclosures and slow movement to modify distressed mortgages.



Lanning

"Local First encourages any business or municipality to put their money to work for Arizona. If a bank is holding your deposits and is not actively lending in Arizona, then you can be sure your money is going to help some other state invest in its business community and grow their economy," said **Kimber Lanning**, executive director of Local First. "Why not keep your money in a bank that is locally owned and operated, where decisions are made right here in Arizona?"

Local First successfully lobbied the Phoenix Industrial Development Authority to move \$1 million worth of its deposits into four local banks, said IDA spokesman **Tony Felice**.

"If the public understood how much money is being sucked out of their communities, I think it would force change," said **Ernie Garfield**, chairman of Interstate Bank Developers Inc. in Scottsdale.

Municipalities and cities can have a big impact on local banks by helping them raise reserves, Garfield said.

SIZE DOES MATTER



Jensen

Mark Jensen, senior vice president of government and institutional accounts for Wells Fargo, said smaller banks often don't have the breadth of services and technology to compete with the big three for government contracts.

Governments tend to perceive large banks as more stable than their smaller counterparts, and often it's the big three competing for such work, Jensen said.



Mike Thorell, president and CEO of Pinnacle Bank in Scottsdale, says if municipalities put just some of their assets in community and local banks, it would have a major impact.

Jim Poulin | Phoenix Business Journal

Municipal deposits and contracts are not small potatoes. Spokeswoman **Cari Gerchick** said Maricopa County has \$2 billion in annual deposits.

The Arizona Treasurer's Office has about \$11.4 billion in assets under management, including \$50 million invested in eight Arizona institutions: [Alliance Bank of Arizona](#), [Bank of Tucson](#), BNC National Bank, [M&I Bank](#), [Metro Phoenix Bank](#), [Pinnacle Bank](#), Republic Bank of Arizona and West Valley National Bank. The office will be adding [Meridian Bank](#) to that list in July, according to spokesman **Kevin Donnellan**.



Ducey

Municipalities can choose whether they want the Treasurer's Office to manage all or a portion of their assets, and Arizona Treasurer **Doug Ducey** said his No. 1 goal is to make conservative investments on their behalf. He said he is committed to helping local banks by depositing assets managed by his office in community banks.

Local banks can submit proposals to receive \$250,000 in deposits through the Treasurer's Office. That's the maximum amount that can be insured on interest-bearing accounts through the [Federal Deposit Insurance Corp.](#) The deposits are awarded based on competitive interest rates and yields.

'TOO BIG TO FAIL' MENTALITY

Donnellan said it makes sense for municipalities to bank with both large banking institutions and community banks.

"Sometimes local banks are the right vehicle for excess liquidity, and sometimes they aren't," he said. "We still think it would be great for many municipalities to open up that channel."

Interest-bearing deposits above \$250,000 at a single bank are not insured by the FDIC. That can make municipalities wary of placing large deposits with smaller banks.

There's still that "too big to fail" mentality, said **Mike Thorell**, president and CEO of Pinnacle Bank in Scottsdale.

He said municipalities can strike a balance between large institutions and community banks. Most cities have many accounts, and electronic banking and wire transfers make everything efficient.

"If municipalities reached out to community and local banks when they have excess liquidity, it would be tremendously helpful to us," Thorell said. "They can also rest assured that the assets under management are safe if they are kept within FDIC limits."

He said \$250,000 per depositor may not sound like much, but it could add up for a local bank if many municipalities made that choice.



DeWitt

Phoenix Finance Director **Jeff DeWitt** said the city has \$3 billion in assets under management. Chase won the city's latest banking contract five years ago, he said, and it will be up for rebid next year.

DeWitt said Phoenix has a single-provider banking contract, meaning the winner provides a wide array of services, including deposit accounts, check processing, credit cards, investment services, and lock boxes picked up for various utility and fee payments.

BY THE NUMBERS

Arizona Treasurer's Office

\$11.4B: Total assets under management as of June 22

\$3.3B: Market value of the Permanent Land Endowment Fund as of March 31

\$3.6B: Amount invested in local government investment pools as of April 30

\$50M: Amount invested with Arizona banks as of March 24

81: Number of cities with assets under management through the office's local government investment pool as of June 22

\$41.6M: Earnings year-to-date as of March 31 for the fiscal year ending June 30, 2011

\$54.1M: Total investment earnings distributed for the fiscal year ended June 30, 2010

Source: Arizona Treasurer's Office

The biggest pricing component of public-sector bank contracts is check processing, and larger banks sometimes can have pricing advantages, according to Wells Fargo's Jensen. He said there are instances in which regional and community banks don't offer the broad array of services sought by government clients. Those range from being able to pick up and maintain lock boxes, to underwriting and investment services for municipal bonds.

DeWitt said Phoenix is looking at whether to break up its banking contract to spread business among more banks. Jensen said he's seen that trend among large cities in Arizona and other states in recent years, but notes that in some instances it's not feasible to divide those services.